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Message Text

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ACTION NEA-10

INFO OCT-01 ARA-10 EUR-12 EA-10 ISO-00 SOE-02 AID-05
CEA-01 CIAE-00 DODE-00 EB-08 DOE-11 H-01 INR-10
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-05 USIA-06
OES-07 SP-02 SS-15 STR-07 TRSE-00 ACDA-12 /149 W
----------085938 020809Z /11
R 011356Z MAR 78
FM AMEMBASSY KUWAIT
TO SECSTATE WASHDC 341
INFO AMEMBASSY ABU DHABI
AMEMBASSY ATHENS
USINT BAGHDAD POUCH
AMEMBASSY BUCHAREST
AMEMBASSY CARACAS
AMCONSUL DHAHRAN
AMEMBASSY DOHA
AMEMBASSY JAKARTA
AMEMBASSY JIDDA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY TEHRAN
AMEMBASSY VIENNA
USDOC WASHDC

C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 1233

ATHENS FOR RTDO

E.O. 11652: GDS
TAGS: ENRG, OPEC, IR, SA
SUBJECT: NEW KUWAIT OIL MINISTER'S VIEWS ON OIL PRICE DIFFERENTIALS, PRODUCTION, LPG SALES AND OIL RELATED PROJECTS

REF: KUWAIT 1032 AND PREVIOUS (NOTAL).

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1. SUMMARY. KUWAIT'S NEW OIL MINISTER IS AUTHORIZED TO EXTEND OIL CREDIT TERMS FROM 60 TO 90 DAYS BUT MAY NOT GO THIS ROUTE, PREFERRING SIMPLY TO CUT KUWAIT'S OIL PRICE. UNLIKE HIS PREDECESSOR, HE DOES NOT BELIEVE THAT MAINTENANCE OF A 2 MILLION B/D LEVEL OF OIL PRODUCTION IS ABSOLUTELY REQUIRED FOR KUWAIT. HE IS UNENTHUSIASTIC AT THE PROSPECT OF KUWAITI PARTICIPATION IN POTENTIAL OIL

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REFINING/PETROCHEMICAL PROJECTS OUTSIDE KUWAIT, WHICH WERE MUCH PUBLICIZED BY HIS PREDECESSOR, AND IS LIKELY TO SHELVE OIL BASED PROJECTS IN KUWAIT IF THEY ARE NOT ECONOMICALLY VIABLE. END SUMMARY.

2. DURING CALL BY AMBASSADOR FEB. 28, KUWAIT'S NEW OIL MINISTER, SHAIKH ALI KHALIFA AL-SABAH, COMMENTED ON POLICIES HE IS LIKELY TO PURSUE ON NUMBER OF OIL-RELATED MATTERS AS FOLLOWS.

3. OIL PRICE DIFFERENTIALS. COMMENTING ON REPORTS THAT KUWAIT HAD OFFERED EFFECTIVE DISCOUNT OF 7-8 CENTS OFF ITS CRUDE PRICE DUE TO EXTENSION OF CREDIT TERMS FROM 60-90 DAYS (REFTEL), ALI KHALIFA SAID PREVIOUS CABINET HAD AUTHORIZED HIS PREDECESSOR TO OFFER SUCH EXTENSION OF CREDIT TERMS BUT HE WAS NOT SURE THIS WAS THE BEST COURSE. STRAIGHT PRICE CUT, IF NEEDED, MIGHT BE BETTER METHOD. MINISTER HAD NOT HEARD THAT ANY OTHER GULF HEAVY CRUDE PRODUCERS HAD EXTENDED THEIR CREDIT TERMS.

4. OIL PRODUCTION LEVEL. AMBASSADOR INQUIRED WHETHER MINISTER SHARED HIS PREDECESSOR'S CONCERN THAT KUWAIT MAINTAIN A 2 MILLION BARREL PER DAY LEVEL OF OIL PRODUCTION (REFTEL). ALI KHALIFA REPLIED FIRMLY THAT IT WAS NOT IN KUWAIT'S INTEREST TO RAISE OIL PRODUCTION (CURRENTLY AT 1.8 MILLION B/D FOR KUWAIT OIL CO.)
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AT THE CURRENT LEVEL OF PRICES. ALTHOUGH HE HAD NOT LOOKED CLOSELY AT THE QUESTION OF WHAT MINIMUM LEVEL OF PRODUCTION IS NEEDED TO MEET KUWAIT'S GAS REQUIREMENTS, IT MAY WELL BE LESS THAN 2 MILLION B/D. (KUWAIT OIL COMPANY CHAIRMAN AHMAD JAFAAR, IN CONVERSATION WITH AMBASSADOR IMMEDIATELY PRIOR TO MEETING WITH OIL MINISTER, SUGGESTED THAT KOC ONLY NEEDS TO MAINTAIN A 1.4 MILLION B/D PRODUCTION LEVEL TO SATISFY THE COUNTRY'S ENERGY NEEDS.)

5. OIL BASED PROJECTS INSIDE AND OUTSIDE KUWAIT. IN HIS FIRST POLICY SPEECH (AT DEDICATION OF A LUBE OIL PLANT FEB. 22), ALI KHALIFA SAID THAT A BASIC POINT IN THE MINISTRY'S NEW OIL POLICY WOULD BE TO "CURB EXTRAVAGENCE IN THE OIL SECTOR" BY ADOPTING A POLICY OF CURTAILING EXPENDITURES, MAKING THE OIL SECTOR AN EXAMPLE FOR OTHER MINISTRIES TO FOLLOW. REFERRING TO THIS SPEECH AND EXPANDING ON IT, ALI KHALIFA SAID THAT HE WILL WANT TO LOOK VERY CAREFULLY AT ALL PROPOSED PROJECTS IN THE OIL SECTOR. THIS, ALI KHALIFA SAID, APPLIED ESPECIALLY TO "ALL PROJECTS BEING CONSIDERED OUTSIDE KUWAIT" SUCH AS THOSE IN ROMANIA, INDONESIA

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AND ELSEWHERE.

6. LIQUEFIED PETROLEUM GAS (LPG) SALES. AFTER
REPORTING THAT REPRESENTATIVES OF 18 JAPANESE,
EUROPEAN AND AMERICAN COMPANIES HAD COME TO KUWAIT
FEB. 18 TO SIGN "FINAL CONTRACTS" FOR THE PURCHASE OF
3.5 MILLION TONS PER YEAR OF LPG, LOCAL PRESS RECENTLY
REPORTED THAT NO CONTRACTS HAVE BEEN SIGNED
BECAUSE OF THE INTRANSIGENCE OF POTENTIAL PURCHASERS,
THE CONTINUED DELAY IN DEREGULATION OF U.S. NATURAL GAS
PRICES, AND DISAGREEMENT OVER TERMS FOR USE OF KUWAITI
LPG TANKERS. ALPQKHALIFA COMMENTED THAT OIL MINISTRY'S
INFORMATION SECTION HAD GROSSLY MISHANDLED PRESENTATION
OF THIS MATTER. HE WAS NOT IN A HURRY TO SELL LPG,
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MINISTER SAID, SINCE PRODUCTION FROM THE FIRST AND SECOND
TRAINS (STARTING UP IN AUGUST AND LATE 1978) CAN BE
SOLD TO JAPAN

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C O N F I D E N T I A L SECTION 2 OF 2 KUWAIT 1233

ATHENS FOR RTDO

REAL PROBLEM (I.E., SALES OF ADDITIONAL
GAS TO U.S.) WOULD NOT COME ABOUT UNTIL COMPLETION OF
THE THIRD TRAIN IN MID-1979.

7. COMMENT: AS FINANCE MINISTRY UNDERSECRETARY, ALI KHALIFA
WAS HIGHLY VOCAL LEADER OF THAT FACTION IN KUWAITI GOVERNMENT
WHICH OPPOSED AMBITIOUS INDUSTRIALIZATION INSIDE KUWAIT
OR OIL-BASED INVESTMENT OUTSIDE KUWAIT UNLESS JUSTIFIED
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ON A RATE OF RETURN BASIS. NOW THAT HE IS FIRMLY IN
CHARGE OF THE OIL MINISTRY, WHICH HAD BEEN PROMOTING
SUCH PROJECTS, WE ARE LIKELY TO SEE MANY OF THEM SHELVED.
IN THE DAYS OF FORMER OIL MINISTER KAZIMI, HARDLY A MONTH
WENT BY WITHOUT EITHER A KUWAIT DELEGATION DEPARTING
OR AN INDONESIAN, ROMANIAN, YUGOSLAVIAN OR OTHER
DELEGATION ARRIVING TO DISCUSS JOINT REFINERY/PETRO-
CHEMICAL PROJECTS WHICH WERE "JUST ABOUT TO BE AGREED."
WE ARE LIKELY TO HEAR MUCH LESS OF THIS IN THE FUTURE.
THIS DOES NOT MEAN THAT KUWAIT IS OUT OF THE DIRECT INVEST-
MENT BUSINESS IN THE THIRD WOULD OR ELSEWHERE. BUT
THERE IS LIKELY TO BE LESS BALLYHOO AND MORE FOCUS ON
REUTRN ON EQUITY RATHER THAN SIMPLY WHETHER OR NOT THE
PROPOSED VENTURE IS IN THE OIL REFINING OR PETROCHEMICAL
FIELD.
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